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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Jackson County FIA for the period October 1, 2000 through July 31, 2001. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Jackson County FIA had 155 full time equated positions (FTE's) at the time of our review. Jackson County FIA provided assistance to an average 8,625 recipients per month during FY 2000, with total assistance payments of \$11,921,768 during that year.

This audit was performed at the request of the Director of Jackson County FIA because she had identified problems in reconciling the Disbursing Account and the Cash with County Treasurer. She requested an audit to assist in getting them up-to-date with the reconciliations, and ensuring that they were on track for staying up-to date in the future.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Jackson County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts

Cash Disbursements

Procurement Card

General Ledger

Modified Accrual Basis Balance Sheet

Safe and Controlled Documents

Medical Transportation

State Emergency Relief (SER)

Employment Support Services

CIS/ASSIST

Client Processing

IRS Information Security

Payroll and Timekeeping

### **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Jackson County FIA internal controls are not adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. Jackson County FIA did not perform accurate, timely reconciliations of their Cash Disbursing Account or their Cash with County Treasurer Account. In addition they did not prepare journal vouchers for receivables due from the State, and did not prepare a Modified Accrual Basis Balance Sheet each month. These deficiencies could significantly affect the office's internal control structure. All of our findings and recommendations are detailed below.

### **LOCAL OFFICE RESPONSE AND OIA FOLLOW-UP**

Because the local office's internal controls were not adequate at the time of our audit, we performed a follow up review on May 22, 2002. Based on that review, we concluded that Jackson County FIA had complied with all of our recommendations.

### **FINDINGS AND RECOMMENDATIONS**

#### **Cash Receipts**

No findings in this area.

#### **Cash Disbursements**

No findings in this area.

#### **Procurement Card**

No findings in this area.

#### **General Ledger**

#### Timely Preparation of Bank Reconciliation

1. Jackson County FIA did not complete the reconciliation of the Cash Disbursing Account within ten days of receipt of the bank statement, as required by Accounting Manual Item 405. The account had not been reconciled properly for over two years, and had not been reconciled at all for over one year. Prompt completion of the Bank Reconciliation helps to ensure that any discrepancies are readily detected and corrected.

WE RECOMMEND that Jackson County FIA prepare the Bank Reconciliation within ten days of receipt of the bank statement each month.

NOTE: Central Office Zone Accounting Staff are currently working on completing the Bank Reconciliations.

#### Reconciliation of Cash With County Treasurer

2. Jackson County FIA did not reconcile its Asset Account 001 (Cash With County Treasurer) to the County Treasurer's cash account each month, as required by Accounting Manual Item 402. This account has not been reconciled properly for two years. Prompt reconciliation of this account balance would detect any discrepancies, and facilitate needed corrections.

WE RECOMMEND that Jackson County FIA reconcile its Cash With County Treasurer Account to the County Treasurer's records each month.

NOTE: Central Office Zone Accounting staff are currently working on resolving this problem.

### **Modified Accrual Basis Balance Sheet**

#### **Modified Accrual Basis Balance Sheet not Prepared**

3. Jackson County FIA had not prepared a Modified Accrual Basis Balance Sheet in over two years, as required by Accounting Manual Item 402.3. Preparation of the Modified Accrual Basis Balance Sheet is necessary to provide an accurate presentation of the local office's financial position.

WE RECOMMEND that Jackson County FIA prepare the Modified Accrual Basis Balance Sheet each month.

#### **Outstanding Accounts Receivable Files**

4. Jackson County FIA has not made the monthly Journal Voucher (JV) entries for receivables Due from State for over 18 months. Accounting Manual Item 402.3 requires that these entries be prepared each month. Preparing these entries help to ensure accurate reporting of accounts receivable on the Modified Accrual Basis Balance Sheet.

WE RECOMMEND that Jackson County FIA make the monthly JV entries for receivables Due from State to help ensure accurate reporting for the Modified Accrual Basis Balance Sheet.

NOTE: Central Office Accounting staff are assisting the local office in resolving this problem.

### **Safe and Controlled Documents**

No findings in this area.

## **Medical Transportation**

No findings in this area.

## **State Emergency Relief**

### **Payment Authorization Files**

5. Jackson County FIA did not maintain its payment authorization file for Authorization/Invoices (FIA-849) in alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local office was filing the FIA-849's in alphabetical order by page of the FIA-849 Issuance Report (ES-440). Filing FIA-849's in strict alphabetical order makes them easier to retrieve, if necessary, and allows for a quicker determination of how many FIA-849 payments an individual has received.

WE RECOMMEND that Jackson County FIA file FIA-849's in either alphabetical or case number order.

### **FIA-849 Payments**

6. Jackson County FIA did not reconcile all payments listed on the FIA-849 Issuance Report (ES-440) with the FIA-849 and supporting documentation on a timely basis. They were at least three months behind in reconciling.. We found numerous FIA-849's that had not been reconciled to the ES-440 Report. Accounting Manual Item 413 requires that the local office reconcile the ES-440 Report with the FIA-849's issued by the local office. This reconciliation helps to ensure that FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Jackson County FIA reconcile all payments listed on the ES-440 Report with the FIA-849's and attached vendor invoices on a timely basis.

## **Employment Support Services**

No findings in this area.

## **CIS/ASSIST**

### **CIS Security Agreements**

7. Jackson County FIA did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for employees who access the Client Information System (CIS), as required by L-Letter 97-063. For 12 of the agreements we reviewed the status code indicated on the FIA-3974A did not agree with the current status code listed on the Operator Identification Report (PF-011). There were 21 agreements on file where the status code was left blank, and there were no agreements on file for 12 employees. Accurate, up-to-date Security Agreements provide documentation that employees understand the security requirements associated with information they may access.

WE RECOMMEND that Jackson County FIA ensure that all employees who access CIS have current, up-to-date CIS Security Agreements (FIA-3974A) on file.

### **CIS Status Codes**

8. We found that all Family Independence Managers (FIM) at Jackson County FIA had BUR status on CIS. This status would allow these managers to process case transactions without an independent review of those transactions.

WE RECOMMEND that Jackson County FIA either change the Family Independence Managers to inquiry only status on CIS, or have an independent person review all transactions processed by them.

**Client Processing**

No findings in this area.

**IRS Information Security**

No findings in this area.

**Payroll and Timekeeping**

No findings in this area.